Annual Report 1968

QUESTOR

Questor Corporation
Formerly Dunhill
International, Inc.

Important Change of Name Notice

Effective December 1, 1968, the name of our company was changed from
Dunhill International, Inc.
to
Questor Corporation

Executive offices remain unchanged:
1801 Spielbusch Avenue
Toledo, Ohio 43601
Phone: (419) 244-7424

New cable address: QUESTOR
New NYSE ticker symbol: IQ

The name QUESTOR is new, but our company, which was formerly known as Dunhill International, Inc., is not. It remains an established manufacturer of consumer durable goods, marketing a host of leading brand name products mainly in four major market areas: Infant, Education, Recreation and Automotive. Questor Corporation, as it is organized today, was formed by the October 31, 1967 merger between AP Parts Corporation (automotive products) and Dunhill International, Inc. (infant products) and has grown larger since. Child Guidance Toys, Inc. (education products) joined us in May of 1968, and Questor also owns over 80% of the outstanding common shares of A. G. Spalding & Bros. Inc. (recreation products).

While all line management, manufacturing, product development, and marketing functions of each operating group remain strictly autonomous, overall direction, long-range planning, and financial coordination have been assumed by Questor Corporation. The result has been a strong company composed of individually strong groups.

About This Report

To present the clearest understanding of Questor Corporation, the operating summary of each major product group is reported separately. For the same reason, all comparative financial reports and related graphs are presented as if Dunhill, AP Parts, and Spalding had been consolidated for each of the full years shown. Financial figures for Child Guidance Toys, Inc. are included from the date of that acquisition in May, 1968.

Notice of Annual Meeting

The annual meeting of shareholders will be held on Tuesday, April 22, 1969 at ten o'clock in the morning, Eastern Standard Time, at the Toledo Club, 14th Street and Madison Avenue, Toledo, Ohio.

QUESTOR

	1968	1967
Results of Operations:		
Sales	[illegible]	[illegible]
Net earnings	[illegible]	[illegible]
Net earnings per share	[illegible]	[illegible]
Return on shareholders' equity (average)	[illegible]	[illegible]
Percentage of Net Sales:		
Gross Profit	[illegible]	[illegible]
Operating income	[illegible]	[illegible]
Earnings before Federal and foreign income taxes and special item	[illegible]	[illegible]
Net earnings	[illegible]	5.5%
[illegible] Position		
[illegible] capital	[illegible]	$ 68,353,14[illegible]
[illegible]	[illegible]	149,455,[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Average number of shares outstanding:		
Common	[illegible]	[illegible]
Preferred	[illegible]	[illegible]

Financial Highlights

	1968	1967
Results of Operations:		
Sales	$220,538,453	$192,437,576
Net earnings	13,062,661	10,504,362
Net earnings per share	1.34	1.07
Return on shareholders' equity (average)	12.5%	10.8%
Percentage of Net Sales:		
Gross Profit	31.2%	30.5%
Operating income	13.5%	11.9%
Earnings before Federal and foreign income taxes and special item	13.3%	11.9%
Net earnings	5.9%	5.5%
Financial Position:		
Working capital	$ 64,424,597	$ 66,358,143
Total assets	169,836,909	148,455,824
Long term debt	10,995,693	12,588,136
Shareholders' equity	108,334,264	100,340,203
Other Data:		
Additions to plant and equipment	10,899,864	5,850,829
Number of shareholders (as of Dec. 31)	5,163	4,545
Number of employees (as of Dec. 31)	10,104	9,321
Average number of shares outstanding:		
Common	7,990,990	8,048,981
Preferred	1,744,961	1,744,961

To Our Shareholders:

QUESTOR

It is with a sense of real pride and accomplishment that we write you concerning the performance of your company during the year ended December 31, 1968. In this, the most significant year in your company's history, we achieved record sales and earnings while we laid the foundation for greater accomplishments in the years to come. Net Sales of $220,538,453 were made in 1968 which were 15% higher than 1967, the previous highest sales year. Of greater importance, net earnings rose to $13,062,661 or $1.34 per share (assuming full conversion of all preferred shares) which was 24% higher than 1967, and established a new record.

During 1968 your company also accomplished or began these additional significant actions:

- Contracted for the sale of its 53.6% common stock ownership of American Bank Note Company for approximately $24,000,000. This transaction results in a one-time capital gain for Questor of $7,856,000 after applicable taxes and expenses, or approximately $.80 per share of common stock. This profit will be reported in 1969 earnings. More importantly, this money will be available to permit the intensification of our acquisition program.
- Agreed to acquire the minority shareholder interest in our 80.3% owned subsidiary, A. G. Spalding & Bros. Inc. for a newly-created issue of convertible preferred stock. A small group representing 6.15% of the total common stockholdings in Spalding is suing to prevent the merger. However, we are confident the merger will be accomplished.
- Changed the company name from Dunhill International, Inc. to Questor Corporation in order to reflect its broadened purpose, scope and philosophy; and to disassociate its identity with the Dunhill Tobacco shops which were sold in 1967.
- Acquired Child Guidance Toys, Inc., a widely-respected producer of educational toys and elementary teaching devices; and established it as the nucleus of an emerging Education Products Group.
- Acquired, through its subsidiary, A. G. Spalding & Bros. Inc., the Fischer Manufacturing Co., Inc., one of the nation's leading producers of billiard and pool tables.
- Acquired, through its subsidiary, Pyramid International, Inc., the Rand Rubber Company, Inc., manufacturer of infant bibs and pants.
- Acquired, through its subsidiary, Leslie Welding Co., Inc., the W. J. Haertel & Co., which produces a nationally-distributed line of suspended ceiling grids.
- Achieved all time record earnings in the Oil City Glass Company Division of its subsidiary Pyramid International, Inc. which had experienced operating losses in the two previous years.
- Achieved all time record earnings in its shock absorber operations which had experienced only moderate profits in previous years.
- In anticipation of an increasing shortage of bank credit, expanded its stand-by medium term borrowing capacity to $45,000,000 to assure ready availability of funds for its growth programs.

In the most significant commitment to our continued growth and excellence, we materially expanded and improved our management group. At the Questor corporate staff level, Frank Bloomquist, who is 32, joined us as Director of Corporate Planning and Development; Jim Neithercut, who is 36, was named Controller; and Bill Opfermann, who is 47, became International Controller. Despite their youth, these men all have outstanding professional education and wide practical experience. Similarly, key appointments were made to upgrade and broaden our managerial base in each of our major subsidiaries. These are described in subsequent sections of this annual report.

Despite the uncertainties that face the economy and the world in 1969, we enter it with a confidence born of the successes of the past and the plans made for the future. Evidence of this faith is

manifested in our 1969 capital budget which anticipates record investments in new facilities and equipment amounting to $13,000,000. We also are committed to a continued expansion of our most important asset — people, and we expect to announce significant additions to our management group in 1969. Our planned growth via acquisition also will continue with important additions, both in the United States and abroad. Sustained by your continued confidence and the outstanding performance of our more than 10,000 fellow employees, we assure you of our total commitment to the further real growth of your company.

Paul Putman
Chairman of the Board

P. M. "Sandy" Grieve
President

Paul Putman

P. M. "Sandy" Grieve

Infant Products Group
Education Products Group
Recreation Products Group
Automotive Products Group
Financial Section

To Our Shareholders:

Infant Products Group

Group Performance

1968 was also a year of outstanding accomplishments for our Infant Products Group, headed by Pyramid International, Inc., Ravenna, Ohio. Sales continued their steady upward climb and earnings were up sharply. Sales in 1968 were $20,229,000 as compared to $19,703,000 in 1967.

In our Evenflo infant feeding line, particularly good gains were achieved in the sale of our Evenflo C-Thru Polycarbonate nurser and the Evenflo disposable nurser. Increased sales of our Infanseat Division also contributed to the overall earnings growth.

An equally important accomplishment has been the turn around in earnings of our Oil City Glass Division. This plant, which produces the glassware for Evenflo infant feeding equipment, was losing money before an extensive $1,000,000 modernization program was completed early this year. These losses were reversed in 1968 and the plant is continuing to operate in 1969 at very satisfactory profit levels. Oil City is now in the second phase of its improvement program with a $1,500,000 expansion project recently started.

New Products

New products for expansion of our product group resulted from Pyramid's acquisition of the Rand Rubber Company, Inc., Brooklyn, New York, in December of 1968. Rand manufactures waterproof, washable baby pants and baby bibs. This company's manufacturing operations are being reorganized under the direction of Leon Pine, 41, formerly Rand's plant manager, while the marketing of Rand products is now being directed by B. R. Frost, Evenflo's vice president of marketing. This broadening of our product base will add strength to our marketing operations while enabling us to better serve Rand's established distribution outlets.

New Management

In keeping with these and future growth plans, we added considerable new strength to our management team with D. W. Humphrey, 37, who joined us as controller of Pyramid International, Inc. Five additional personnel were either promoted or recruited to fill out Pyramid's management needs.

We are pleased with these appointments. We believe that they, along with all others in our management ranks, are providing the strengths required to meet our future goals.

Outlook

Recent data indicate that the birth rate in America, which had been dropping sharply since 1957, leveled off during 1968. This is at least partly attributable to the fact that the millions of babies born in the early 50's are now becoming adults. The Census Bureau predicts an increase of 11.1 million women of child-bearing age during the next decade, meaning that there will be *more* families and *more* new babies in the 1970's.

Assured of a steadily growing market for our established products, we are continuing our search for additional lines which will add to and complement our present infant product mix. These factors, combined with progress made in 1968, make our outlook for 1969, and indeed the next decade, extremely optimistic.

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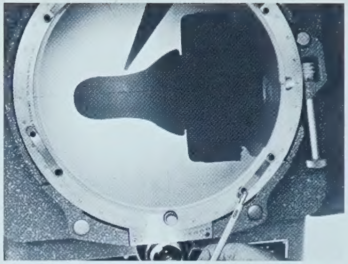
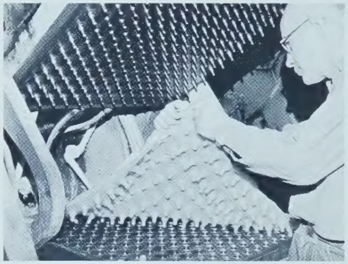
Infant Products Group

Education Products Group
Recreation Products Group
Automotive Products Group
Financial Section

An important product advantage of Evenflo baby bottle nipples is their constant attention to quality. Here a laboratory technician inspects the ability of the nipple to retain its shape—and snug fit in the bottle cap—after repeated sterilizations.



One of the first steps in manufacturing is the multiple-molding of these large rubber sheets. They are later automatically precision cut and electrically drilled to form the Evenflo baby bottle nipples.



At the Oil City Glass Division, Evenflo baby bottles flow from the new automated glass molding machines through banks of giant annealing lehrs. For use in baby feeding, each bottle must be able to withstand hot to cold shock tests of 120 degrees.

Attired in safety hat and glasses, this worker of Harcort Manufacturing Division is molding the plastic shells used for the new Evenflo disposable infant feeding units.

Retail surveys now show that Evenflo infant products receive more shelf space in retail outlets across the nation than any of the competitive brands. These surveys also show that four out of every five new mothers purchase Evenflo products.


evenflo

Operations Summary

An important part of Questor Corporation's expansion plan is the acquisition of those companies whose products can be logically and efficiently operated with existing product lines for maximum growth and efficiency.

Following this plan, Child Guidance Toys was acquired in May of 1968 to form the nucleus of an emerging Education Products Group which also includes Platt & Munk Co., Inc., publishers of children's books and games. When the proposed merger with A. G. Spalding & Bros. Inc. is completed, the Group will also include Spalding's Toy Tinkers Division, manufacturers of wooden and plastic construction toys.

Purchase of Child Guidance Toys was made for $1,550,000 cash plus a commitment of an additional $3,000,000 for working capital and expansion. Also included was a long term management agreement with Robert Genin, 47, who as CGT founder and president is recognized as one of the top creative designers in the educational toy field.

New Team Members

Also new to our company is Peter O. Everson, 38, who joined Child Guidance Toys in November, 1968 as vice president of marketing to direct the sales and marketing activities of the Education Products Group. To round out the new management, Norman Gust, 36, was recruited as Controller in June, 1968.

New Products For 1969

While each of the Education Products Group's established product lines continues to receive excellent consumer acceptance, an impressive number of new products is being introduced in 1969. Platt & Munk has added twenty-eight new book and game titles to its list of perennial best sellers for children of all ages. Child Guidance Toys is offering a record number of forty new items, plus a complete repackaging program under the new name of Child Guidance Educational Activities.

Looking toward new horizons, Child Guidance is nearing completion of a market research study of a new low cost audio-visual teaching machine which has broad application in the education field. Similarly, Toy Tinkers is continuing emphasis upon teaching kits that accompany their line of visual training aids used with their famed "Tinkertoy" line in a growing number of classrooms.

The majority of these products are introduced at the world famous Toy Fair held each March at the Toy Center in New York City. Early in 1969, the individual display space and sales offices of these three companies were replaced by new consolidated permanent salesrooms and general sales offices, thus providing a suitable showcase for the thousands of toy buyers who visit the Toy Center annually.

Platt & Munk Move

To add to the efficiency of the group's production and distribution capabilities, Platt & Munk has moved its physical facilities from mid-Manhattan to the new 205,000 square foot Child Guidance plant, located in the Bronx, where existing available space was well adapted to fit Platt & Munk's needs. This move also has made it possible for Platt & Munk to work closely with Child Guidance management in the development of a new packaging program (for which Child Guidance is an acknowledged industry leader), and the development of new overseas purchasing sources which will add significantly to their economy of operation.

To more closely coordinate and describe these activities, the company is now called Child Guidance Products, Inc. Child Guidance Toys and Platt & Munk maintain separate division status as a part of Child Guidance Products, Inc.

QUESTOR

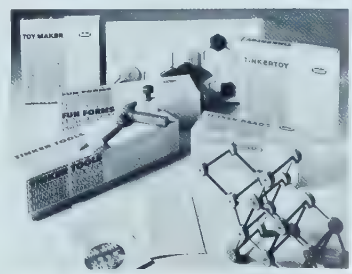

TINKERTOY
BIG BOY
ORIGAMI
PAPER FOLDING
MECHANICAL LOCOMOTIVE
When I was 16

Child Guidance designer checks specifications of an imported motorized sanitation truck, one of forty new toys being introduced in 1969.

Recent modernization and consolidation of the Platt & Munk packaging facilities with those of Child Guidance have significantly increased the speed and efficiency of these operations.

At Child Guidance the newly appointed art director and sales manager discuss the new packaging designs to be adapted to Platt & Munk's line of children's educational activities.

Toy Tinker Division of A. G. Spalding & Bros. Inc., displays its continuing emphasis on educational teaching aids through this Play and Learn Kit used to develop perceptual-motor skills in kindergarten or primary grades.



Entrance of the new Child Guidance display and general sales offices located in the Toy Center Building in New York City.

Operations Summary

Sales of the Recreation Products Group, which is comprised of the world-wide activities of A. G. Spalding & Bros. Inc., reached an all time high in 1968 of $64,734,000 as compared to $58,510,000 for 1967.

Each of Spalding's sales divisions contributed to the sales increases, with the most successful new products being the Executive golf clubs with aluminum shafts and the "Smasher" aluminum tennis racket. Overseas, the introduction of the "Executive Type" non-wound golf ball and the new "Dot" golf ball with one-piece covers has also met with outstanding sales acceptance.

Group earnings, unfortunately, did not keep pace with sales. The added costs of the development of new products, and crash programs needed to provide increased production and distribution capabilities, combined with continuing —though smaller—losses in our United Kingdom operations to hold earnings below the 1967 level.

Facility Improvements

Major facility improvements, including the installation of additional equipment and machinery in the company plants in Chicopee, Massachusetts, the United Kingdom, Australia, and Canada are now being completed. When finished, these plant improvements will add to the Recreation Product Group's efficiency and production capacity.

New Management

Spalding management was strengthened in 1968 by six significant actions:

William P. Sovey, 35, was brought into the company as vice president-manufacturing.

James Norris, 40, was promoted to vice president-merchandising.

Robert P. Molitor, 48, was promoted to vice president-research and development.

John Gilbert, 38, was promoted to managing director of Spalding Europa, a new division created to increase Spalding's distribution and manufacturing activities on the continent of Europe.

Richard Partington, 46, was hired as managing director of Spalding United Kingdom operations. He has already reorganized operations under new management who are bringing fresh ideas and efforts to the problems and are confident that meaningful progress can be achieved there.

Charles Bailey, 39, was hired as President of the newly-acquired Fischer Manufacturing Company.

New Products and Markets

Significant moves have also been made to expand our product lines into several new markets. In December of 1968, we acquired Fischer Manufacturing Co., Inc., nationally recognized manufacturer of home and coin-operated pool and billiard tables. This acquisition adds a totally new dimension to Spalding's line of recreational products and should bring new sales volume in excess of $5,000,000 and additional earnings in excess of $350,000 to Spalding in 1969. In January of 1969, a complete line of water skis, water ski apparel, and accessories was obtained through a close working agreement with the Superior Sports Specialties Company of San Fernando, California. They will be marketed by Spalding's dealer sales group under the famous "Taperflex" brand.

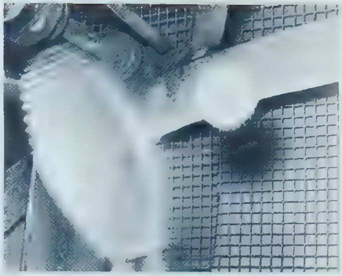
Outlook

Undoubtedly 1969 will bring additional growing pains, for progress is not without its price. However, the markets for recreational and leisure time products continue strong and our plans call for continued expansion both from within our established product lines and from active pursuit of our published acquisition objectives. Work toward improving operating efficiencies is being given top priority so that we can report improved earnings for 1969 and beyond.

QUESTOR

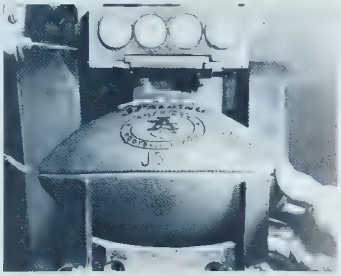

SPALDING
SPALDING
SPALDING
SPALDING
REBEL
SPALDING
Extra Long Life
SPALDING
SPALDING

For quality testing, and to help measure the strength and durability of new tennis products, this "Wacker" machine drops a tennis ball every few seconds to be served — in this case — by a "Smasher" tennis racket fixed to a revolving axis.



Superiority in the manufacturing of golf equipment is attributed in great part to the fact Spalding is the only club manufacturer to maintain its own foundry for the production of club heads.

There was no question of how Spalding was rooting as the whole nation recently watched their official AFL football "win the Super Bowl." Increasing numbers of league endorsements in many sports activities attests to the "Professional Edge" of Spalding's products.



The manufacture of Fischer pool tables in the Tipton, Missouri plant combines the quality of hand crafted workmanship with modern assembly line techniques to win an increasing share of the expanding market. Women's U. S. Open Champion, Dorothy Wise, helps demonstrate the "Professional Edge" of Fischer pool tables at the recent National Sporting Goods Show.

This type of merchandising display, as displayed at Macy's department store in New York City has helped Spalding earn the retail merchants' Gold Medal for outstanding merchandising and advertising programs.


SPALDING
SPALDING
SPALDING
SPALDING
SPALDING
SPALDING
SPALDING
SPALDING
Smasher
SPALDING

Operations Summary

During 1968, near-record new car sales and increased emphasis on vehicle safety, together with our expanded production facilities, continued new product development, and accelerated marketing programs, combined to bring the sales of our Automotive Products Group to an all time high. Major contributors to this group's performance are exhaust system parts, piston rings, and shock absorbers for the original equipment and replacement markets. Related products which also made impressive gains were valve seat inserts, transmission rings, and specialized castings for the automotive, small engine, home appliance, and related industries. The resulting high levels of production, and full utilization of our equipment, manpower, and facilities, helped balance rising operation costs and maintain high earnings levels. Sales increased to $123,563,000 as compared to $104,509,000 in 1967. After-tax earnings increased 22 percent.

New Products for Growth Markets

Expansion of our Muskegon Piston Ring subsidiary's production and research facilities, completed in 1967, enabled us to meet the increased customers' demand for the new molybdenum-filled piston rings. Orders for Muskegon's standard chrome rings also continued to increase at a satisfactory level. Late in 1968, Muskegon introduced another new product, a revolutionary two-piece oil ring, which earned immediate acceptance and promises to increase our share of market even more in 1969 and 1970.

Similar gains in the sales of related parts, particularly to manufacturers of small engines used for the growing power tool and recreation markets (mowers, snow blowers, chain saws, outboard motors, and snowmobiles), have also contributed to the group's overall performance. Anticipating accelerated growth in this area, Muskegon's Wausau Motor Parts Division has started construction of a plant addition which, with machinery and equipment, will amount to an additional investment of almost $1,000,000.

Also working closely with the car manufacturers, the engineers of our Oldberg Manufacturing subsidiary have developed a number of engineering improvements in exhaust system design that have enabled us to increase sales in this area.

Replacement Sales Up

In the replacement market, our major strength continues to lie in the sale of automotive exhaust systems, with shock absorber sales showing healthy gains.

Recent improvements in our distribution methods, including expanded computerization of production and inventory control procedures, new automated packaging operations, and a newly-developed unitized shipping program for use by our warehouse distributors, are making major contributions toward cost reductions for both ourselves and our customers. These advances, coupled with our strict adherence to quality standards, accelerated marketing programs, and the increased number of states requiring periodic vehicle inspection, have produced record sales for this operating group.

We are particularly proud of the progress made in our shock absorber operations. Until late 1967 profits from this product line were hindered by high product development and distribution costs. These problems have now been largely solved and 1968 sales and earnings progressed at an impressive rate. To accommodate projected growth in this product line, a $3.6 million expansion of shock absorber facilities is budgeted for 1969.

Organizational Changes

One sad note in 1968 was the retirement of two of our key executives; Gilbert Lundeen, president of Muskegon Piston Ring Company, and Clifford Cope, vice president and general manager of Oldberg Manufacturing Company's Toledo Division.

Replacing Mr. Lundeen is Muskegon's former Executive Vice President, Douglas Hamm, 51. Following Mr. Hamm as general manager of the Muskegon Division is William Walthouse, 38, who joined us in 1967 as manager of Muskegon's Rotary Seal Division. He in turn has been succeeded by Richard MacLeod, 35, who joined us in 1968.

Replacing Mr. Cope at Oldberg's Toledo Division is George Dimit, 44, who was responsible for many of the improvements in our shock absorber operations while serving as general manager of Oldberg's Dyersburg Division. He has been replaced at Dyersburg by Sam Woodbury, 39, who joined us in 1968.

Other key appointments made during 1968 to newly created positions include Vern Dupy, 43, who joined us in 1967, to director of marketing for AP Parts Corporation; Jack Kleberg, 38, who joined us in 1967, to vice president of marketing for Goerlich's Inc., and Herb Rettig, 48, who joined us in 1966, to controller of Oldberg Manufacturing Company.

These young, experienced professionals, plus a score of others who have been promoted or have joined our management ranks during the year, carry out our commitment to broadening our management base in keeping with our continued growth and expansion plans.

Outlook

The outlook for our automotive group remains extremely optimistic, with annual sales of new cars now exceeding the nine million mark. These sales are expected to increase to thirteen million new car sales by the late 1970's, due to normal population growth and the increased number of multi-car families. The rapid expansion of the inter-state highway system, making automobile travel even more appealing, and the continuing emphasis on driving safety should increase our markets for replacement parts at an even higher rate in 1969 and beyond.

To meet this demand we are continuing

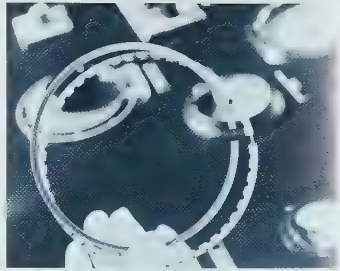
QUESTOR

the orderly expansion and improvement of our production and distribution capabilities, with particular emphasis on manpower training and development.

Automotive Products Group

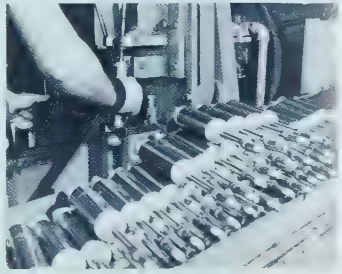
the orderly expansion and improvement of our production and distribution capabilities, with particular emphasis on manpower training and development.

This new exclusive two piece oil ring, developed by the engineers of Muskegon Piston Ring, and introduced in late 1968 promises to provide easier installation and lower costs for car manufacturers.



Replacement pipes for automotive exhaust systems receive a final non-rust coating before being placed in inventory of our now more than 10,000 parts wholesalers.

Extra care is given to the final assembly of replacement shock absorbers. These units are valued approximately 25% stiffer than those installed on most new cars to help compensate for normal softening of springs and other suspension parts.



As a warehouse clerk types the shipping report for a customer's shipment, the same information is transmitted to our computer center to automatically trigger production scheduling and inventory replenishment procedures.

AP national advertising and merchandising programs are designed to sell through—not to—its dealer network of over 100,000 service stations, and independent garages


BP NEIGHBORHOOD
MUFFLER
CENTER
FAST INSTALLATION
ACCESSOR

Building Products

In addition to our four major market areas, Questor Corporation is also gaining an increasing position in the building products industry through the operations of our Leslie Welding subsidiary.

Leslie Welding Co. Inc.

Leslie is a 42-year-old company that has an established reputation as a leading manufacturer of ventilation equipment for home and industry. It is also considered the largest producer of wind-driven rotary turbines.

Several years ago Leslie began manufacturing plastic ventilators and soon thereafter developed a plastic ornamental outside shutter that has since become its fastest growing product line.

Leslie operates plants in Franklin Park, Illinois; Tucker, Georgia; and Fort Worth, Texas. Annual sales have been approximately $4,000,000.

W. J. Haertel & Co.

In December of 1968, Leslie acquired W. J. Haertel & Co., manufacturers of the suspended ceiling grids used to support acoustical tile in all types of building construction. Haertel's annual sales are approximately $2,000,000.

This addition of the Haertel facilities and product line to those of Leslie's present an unusual growth opportunity for both companies. Leslie has been seeking additional production space to expand its metal and plastic processing operations. Haertel's modern 65,000 square foot plant, which is located just five blocks from Leslie's Franklin Park plant, has approximately 50% unused production space which will be utilized in part by Leslie for its expansion needs. In addition, both Leslie and Haertel products are sold through the same wholesale channels of distribution, thereby permitting a greater concentration of sales effort by existing sales groups. The seasonal distribution patterns of the companies differ sufficiently to provide a more countercyclical effect on sales and production flow.

The Leslie-Haertel operations are managed by Tom Schretter, 31, who has been president of Leslie Welding Company since 1967.

Outlook

The building products industry gained considerable strength in 1968 and most forecasts call for continued growth in 1969 and beyond. The expansion of our production facilities and product lines within this industry should continue to produce favorable sales and earnings increases. At the same time, operation of these companies is providing management with the opportunity to become more fully familiar with the building products industry as an area for possible future expansion.

American Bank Note Sale

Conversely in 1968, Questor Corporation contracted for the sale of its 53.6 percent common stock ownership of a company in a field that did not fit with our planned growth and published acquisition programs in selected consumer products markets. This was the American Bank Note Company, New York City.

The sale was completed February 14, 1969 for approximately $24,000,000. This resulted in a one-time capital gain for Questor of $7,856,000 after applicable taxes and expenses, or approximately 80 cents per common share. This is not reflected in the financial portion of this report, but will be reported in the first quarter of 1969. See Financial Note No. 2 for more details.

Questor Corporation
Statement of Consolidated Earnings and Retained Earnings

Year Ended December 31, 1968
With Comparative Figures For 1967

	1968	1967
Net sales	[illegible]	$192,437,576
Cost of sales	151,681,886	133,810,371
Gross profit	68,856,567	58,627,205
Selling, general and administrative expenses	39,178,546	35,708,239
Operating income	29,678,021	22,918,966
Net other deductions (income)	449,360	(2,274)
Earnings before Federal and foreign income taxes and extraordinary charge	29,228,661	22,921,240
Federal and foreign income taxes	15,735,000	10,600,000
Earnings before minority interests and extraordinary charge	13,493,661	12,321,240
Minority interests in earnings of subsidiaries	431,000	627,882
Earnings before extraordinary charge	13,062,661	11,693,358
Extraordinary charge—loss on sales of subsidiaries		1,188,996
Net earnings	13,062,661	10,504,362
Retained earnings at beginning of year	[illegible]	68,674,044
	88,302,237	79,178,406
Cash dividends declared on:		
Convertible preferred stock—$.10 per share ($.02½ per share in 1967)	174,496	43,624
Common stock—$.50 per share ($.45 per share in 1967)	4,001,811	2,185,707
Capital shares of merged companies prior to merger		1,709,499
	4,176,307	3,938,830
Retained earnings at end of year	$ 84,125,930	$ 75,239,576
Earnings per common share (note 5):		
Earnings before extraordinary charge	[illegible]	$ 1.19
Extraordinary charge		.12
Net earnings	[illegible]	$ 1.07

See accompanying notes to consolidated financial statements

Questor Corporation
Consolidated Balance Sheet
December 31, 1968
With Comparative Figures For 1967

Assets	1968	1967
Current assets:		
Cash	$ 9,883,236	$ 10,706,767
Marketable securities, at cost (less than market value)	3,289,799	2,422,590
Receivables, less allowance of $1,631,500 in 1968 and $1,505,695 in 1967:		
Trade	36,799,267	29,791,187
Other	[illegible]	1,396,776
Net receivables	38,057,034	31,187,963
Inventories, at lower of cost (first-in, first-out), or market:		
Raw materials	10,361,389	8,531,048
Work in process	9,571,358	8,229,724
Finished goods	34,305,834	31,182,224
Total inventories	54,238,581	47,942,996
Prepaid expenses	2,780,252	2,194,950
Total current assets	108,248,902	94,455,266
Investment in affiliated companies, at cost (note 2)	12,977,758	12,917,758
Property, plant and equipment, at cost:		
Land	2,627,619	2,102,055
Land improvements	467,767	423,340
Buildings and building improvements	25,277,358	21,500,111
Leasehold improvements	1,648,840	1,527,179
Machinery and equipment	48,555,243	41,349,098
Construction in progress	1,249,033	1,274,861
	79,825,860	68,176,644
Less accumulated depreciation	38,733,955	33,042,176
Net property, plant and equipment	41,091,905	35,134,468
Other assets	7,518,344	5,948,332
	[illegible]	$148,455,824

See accompanying notes to consolidated financial statements.

QUESTOR

Liabilities and Shareholders' Equity	1968	1967
Current liabilities:		
Unsecured bank loans	$ 12,934,437	$ 2,041,982
Current maturities of long-term debt (note 3,	3,574,220	4,716,699
Accounts payable	9,404,789	7,976,001
Dividends payable	1,045,124	993,912
Accrued expenses	8,248,209	7,206,792
Federal and foreign income taxes	8,617,526	5,161,737
Total current liabilities	43,824,305	28,097,123
Deferred Federal and foreign income taxes	760,000	350,000
Long-term debt (note 3)	10,995,693	12,588,136
Minority interests in subsidiaries	5,922,647	7,080,362
Shareholders' equity (notes 1, 3, 5 and 6):		
Prior preferred stock, without par value. Authorized 1,000,000 shares; none issued	—	—
Convertible preferred stock, par value $1 per share. Authorized and issued 1,744,961 shares	1,744,961	1,744,961
Common stock, par value $1 per share. Authorized 14,000,000 shares; issued 8, 122,307 shares in 1968	8,122,307	8,056,825
Additional paid-in capital	16,458,789	15,650,094
Retained earnings	84,125,930	75,239,576
	110,451,987	100,691,456
Less cost of 110,310 shares of common stock in treasury (24,970 shares in 1967)	2,117,723	351,253
Total shareholders' equity	108,334,264	100,340,203
Commitments and contingent liabilities (notes 7, 8 and 9)		
	$169,836,909	$148,455,824

Questor Corporation
Statement of Consolidated Source and Application of Funds

Year Ended December 31, 1968
With Comparative Figures For 1967

	1968	1967
Funds provided:		
Net earnings	$13,062,661	$10,504,362
Add charges against earnings not requiring funds:		
Depreciation and amortization	5,193,053	4,583,420
Provision for deferred income taxes	380,000	225,000
Loss on sale of subsidiaries	—	1,188,996
Funds derived from operations	18,635,714	16,501,778
Issuance of common stock	1,381,404	7,754
Decrease in investment in corporate securities	—	590,199
Sale of subsidiaries	—	652,903
Book value of property, plant and equipment disposals, etc.	—	1,099,932
	20,144,844	18,852,566
Funds applied:		
Additions to property, plant and equipment	10,899,864	5,850,829
Increase in other assets, excluding depreciation and amortization	1,918,364	595,394
Decrease (increase) in long-term debt	1,592,443	(1,148,501)
Decrease in minority interests in subsidiaries	—	172,772
Purchase of shares of affiliated companies	60,000	369,820
Purchase of treasury shares	2,273,697	292,638
Cash dividends	4,176,307	3,938,830
	22,078,390	10,071,782
Increase (decrease) in working capital	$ (1,933,546)	8,780,784

See accompanying notes to consolidated financial statements.

QUESTOR

Questor Corporation

Notes to Consolidated Financial Statements

December 31, 1968

1 Principles of Consolidation and Related Matters

The consolidated financial statements include the accounts of all subsidiaries after elimination of significant intercompany items and recognition of minority interests. Accounts of foreign subsidiaries have been converted to appropriate dollar equivalents. All significant subsidiaries are wholly-owned except for A. G. Spalding & Bros. Inc. (80.3% owned at December 31, 1968 and 74.5% owned at December 31, 1967).

As of December 1, 1968 the Company changed its name from Dunhill International, Inc. to Questor Corporation.

During 1968 the Company or its subsidiaries acquired four domestic companies by cash purchases, and the results of their operations from the respective purchase dates, which were not material in amount, are reflected in the consolidated financial statements. The excess of the cost of these investments over the underlying book values of the net assets acquired ($3,557,662) has been recorded as an intangible asset and is included in other assets.

In October 1968 a majority of the shareholders of both Questor Corporation and A. G. Spalding & Bros. Inc. approved a plan to merge the two companies, to be effected by the exchange of each of the outstanding shares of Spalding common stock not held by Questor for one share of a new issue of Questor's Series A $2.00 Convertible Prior Preferred Stock described in note 5. Although the plan contemplated completion of the merger in 1968, its consummation has been delayed pending the outcome of a suit filed by certain Spalding shareholders which seeks to enjoin the companies from effecting the merger. Management of the Company expects that the merger will be completed in 1969. The merger will be treated as a pooling of interests for accounting purposes with respect to the minority shareholders' equity in Spalding.

2 Investments in Affiliated Companies

At December 31, 1968 the Company owned approximately 54% of the outstanding common shares (46% of the voting stock) of the American Bank Note Company having a cost of $12,802,609. Certain subsidiaries of the Company had investments of $175,149 (approximately book value) in the outstanding shares of two foreign companies.

In October 1968 the Company executed an agreement with B. T. Babbitt, Inc. providing that Babbitt is to purchase the Company's common shares of American Bank Note Company on or before February 17, 1969 for $23,991,488, payable $15,000,000 in cash at the closing with the balance represented by four 6½% promissory notes. The notes are to be collateralized by American Bank Note shares and will mature $1,000,000 on February 15, 1970, $2,000,000 on February 15, 1971, $3,000,000 on February 15, 1972, and $2,991,488 on February 15, 1973. It is anticipated that the agreement (which imposes a $1,000,000 liquidated damages penalty on Babbitt for non-performance) will be completed, resulting in a 1969 extraordinary gain of approximately $7,856,000, after applicable income taxes and expenses.

3 Long-Term Debt

The long-term debt at December 31, 1968 was as follows:

	Due within one year	Due after one year
Unsecured obligations:		
Notes payable to banks:		
4¾%, due June 30, 1969	$ 675,000	$ —
5½%, due September 1, 1969	150,000	—
1% over bank rate, due September 30, 1969	1,560,000	—
4¾%, due April 18, 1970	150,000	50,000
Notes payable to insurance companies:		
6.40%, due October 25, 1981	670,000	7,990,000
6%, due June 30, 1971	100,000	150,000
Installment contracts:		
5%, due March 15, 1972	100,240	300,720
4%, due October 1, 1975	1,140	7,639
Other:		
6¼%, due October 31, 1973	—	100,000
Secured obligations:		
Mortgage notes:		
4¾%, due February 28, 1984	16,600	233,784
2%, due February 28, 1984	11,792	193,717
Non-interest bearing, due September 30, 1970	5,000	15,000
6¾%, due August 1, 1987	32,990	1,161,258
3%, due July 10, 1987	28,665	667,666
Equipment loans	72,793	125,909
	$3,574,220	$10,995,693

Covenants in agreements relating to long-term debt require the maintenance of specified minimum working capital and restrict certain borrowings, investments, loans, mergers, leases, etc. The agreement relating to the note due June 30, 1969 imposes limitations on payments for dividends and acquisition of Company stock, and the amount unrestricted as to such payments was $25,786,845 at December 31, 1968.

4 Revolving Credit Agreements

The Company has a revolving credit agreement with seven banks which are committed to lend an aggregate of $45,000,000 through the termination date, May 15, 1970. Borrowings are to be evidenced by promissory notes payable in ten equal semi-annual installments beginning December 31, 1970. Until the termination date, the Company is required to pay a fee of ¼ of 1% per annum on the unused portion of the commitment. At December 31, 1968 there were no borrowings under this agreement.

On April 17, 1968 the Company executed a revolving credit agreement with a bank which is committed to lend the equivalent of $2,275,000 in foreign currency. At December 31, 1968 there were no borrowings under this agreement; however, in January 1969 approximately $2,000,000 was borrowed.

5 Capital Shares and Earnings per Share

On October 16, 1968 the shareholders of the Company adopted a Restated Certificate of Incorporation, which increased the authorized number of common shares from 12,000,000 to 14,000,000 and authorized the issuance of 1,000,000 shares of Prior Preferred Stock without par value.

The Prior Preferred Stock is issuable in one or more series as may be established by the Board of Directors, which is also authorized to fix the rights, preferences and terms of each series. All series of Prior Preferred Stock are to rank senior to the Company's Common Stock and Convertible Preferred Stock as to all rights, powers and privileges, including rights to dividends and to assets upon liquidation. The Board of Directors has established a series of 169,140 shares of such stock, designated as Series A $2.00 Convertible Prior Preferred Stock, and these shares are to be exchanged for common shares of A. G. Spalding & Bros. Inc. to effect the pending merger described in note 1. This series of Prior Preferred Stock is entitled to cumulative cash dividends of $2.00 annually, is convertible into shares of Common Stock at the rate of 1.6 shares of common for each share of prior preferred (an aggregate of 270,624 common shares), is redeemable at the option of the Company on or after December 31, 1970 at $50.00 per share plus accrued dividends (an aggregate of $8,457,000 exclusive of dividends) and its holders are entitled to one vote per share.

Subject to rights of the Prior Preferred Stock (when issued), the Common Stock and Convertible Preferred Stock have equal rights and privileges, except that holders of Convertible Preferred Stock are entitled to receive cumulative dividends at the rate of 2½¢ per share quarterly before any dividends are declared on common stock. The Convertible Preferred Stock is convertible on or after December 31, 1970 into Common Stock on a share-for-share basis, subject to any appropriate adjustments for intervening Common Stock dividends or subdivisions.

Earnings per common share for 1968 and 1967 have been calculated on the basis of the weighted average number of shares outstanding during the respective years assuming conversion of the outstanding Convertible Preferred Stock, which is considered to be a residual security deriving a major portion of its value from its conversion privilege.

At December 31, 1968, an aggregate of 2,149,129 common shares was reserved for issuance upon conversion of preferred shares, exercise of stock options and awards under the Restricted Stock Award Plan.

During 1968 the Company purchased for its treasury 112,840 shares of its common stock at an aggregate cost of $2,273,697. Under an agreement dated May 29, 1968, 27,500 treasury shares, having a market value of $788,906, were awarded to an employee of a subsidiary, subject to certain restrictions upon their sale or transfer; and the $281,679 excess of market value over the cost basis of these shares was added to additional paid-in capital.

6 Stock Options and Restricted Stock Award Plan

The Company has two qualified stock option plans under which options to purchase its common stock at not less than 100% of fair market value at date of grant may be granted to key management employees of the Company and its subsidiaries. All of the options authorized by the first plan have been granted, represented by options for 127,020 shares in 1966 at a price of $8.91 per share and an option for 43,500 shares in 1967 at $9.63 per share. Options for 53,592 shares at $8.91 have been exercised (including 52,722 shares in 1968) and 12,760 shares at the option price of $9.63 were exercised during 1968. The second plan was adopted in 1968 and provides that options for a maximum of 150,000 shares may be granted up to July 23, 1978. Each of these options will expire five years from date of grant, and recipients must agree to continue as employees for at least one year. At December 31, 1968 options for 57,000 shares at $31.00 per share had been granted but were not yet exercisable under the terms of the 1968 plan. The excess of option prices over the par value of shares issued upon exercise of options in 1968, an aggregate of $527,016, has been added to additional paid-in capital.

In recognition of services for a subsidiary, the Company issued a Stock Option Certificate dated January 17, 1969 to a foreign corporation for the purchase of

10,000 common shares of Questor Corporation on or before January 18, 1972 at $32.9875 per share. Concurrently, this corporation was granted an additional option to purchase not more than 10,000 common shares between January 18, 1972 and January 18, 1975 at the average market price for the ten days preceding January 18, 1972.

A Restricted Stock Award Plan was adopted by the Company in 1968, under which a maximum of 150,000 of its common shares may be awarded to middle-management employees of the Company and its subsidiaries to reward outstanding performance and build loyalty. Certificates covering awarded shares will contain restrictions against the sale of the stock for specified periods, and the Company will receive no deduction for income taxes until the dates when the restrictions terminate. As of December 31, 1968, awards of 1,000 shares under this Plan had been authorized but the shares had not been issued.

7 Pension Plans

The Company and certain of its subsidiaries have several pension plans covering substantially all hourly-paid and certain salaried employees. Company policy is to fund pension costs accrued, and total pension expense was approximately $1,810,000 in 1968 and $1,340,000 in 1967, including amortization of prior service costs on the basis of amortization periods ranging from ten to forty years. The most recent determinations indicate that the actuarially computed value of vested benefits under the principal plans exceed the market value of the corresponding fund assets by approximately $3,900,000.

8 Commitments

The Company and its subsidiaries lease certain manufacturing, warehousing and office facilities and office equipment under various lease agreements, some having renewal options, expiring periodically through 1983 and requiring annual rental payments of approximately $1,100,000 in 1969 plus certain related taxes, insurance and maintenance charges. Of this annual rental, $670,000 is applicable to leases having expiration dates within the next five years. Total rental obligations payable over the present terms approximate $6,425,000. The Company and its subsidiaries have budgeted approximately $13,000,000 for capital expenditures in 1969.

9 Contingent Liabilities

The Company and its subsidiaries have various claims and lawsuits pending and threatened against them and have made certain guarantees which arose in the ordinary course of business. Certain of the Companies' Federal tax returns for prior years are being examined by the Internal Revenue Service. It is not possible to estimate these liabilities; however, in the opinion of management and counsel, any ultimate settlements in such matters will have no material effect on the consolidated financial position of the Company.

10 Depreciation and Amortization

Depreciation and amortization charges totaled $5,193,053 in 1968 and $4,583,420 in 1967. Depreciation is based upon estimated useful lives of the various assets, ranging from two to fifty years, and has been computed in part by accelerated methods. Certain items are depreciated by accelerated methods for income tax purposes only, and the deferred taxes attributable to the additional depreciation deductions are recorded annually.

The Board of Directors and Shareholders
Questor Corporation:

We have examined the consolidated balance sheet of Questor Corporation (formerly Dunhill International, Inc.) and subsidiaries as of December 31, 1968 and the related statement of earnings and retained earnings and the statement of consolidated source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of Questor Corporation and subsidiaries at December 31, 1968, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of consolidated source and application of funds for the year ended December 31, 1968 presents fairly the information shown thereon.

Toledo, Ohio
February 3, 1969

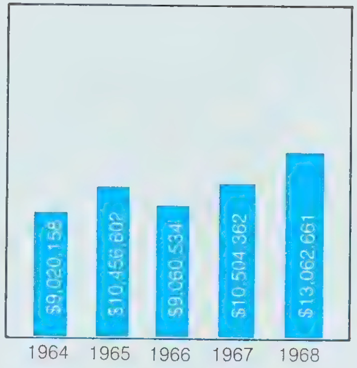
Peat, Marwick, Mitchell & Co.

Five Year Financial Summary

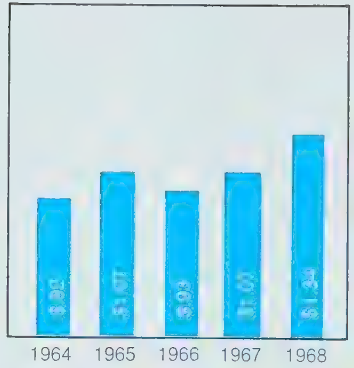
QUESTOR

Net Sales

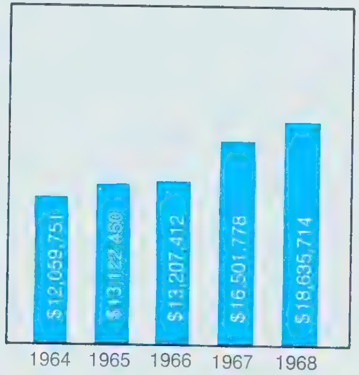
Net Earnings



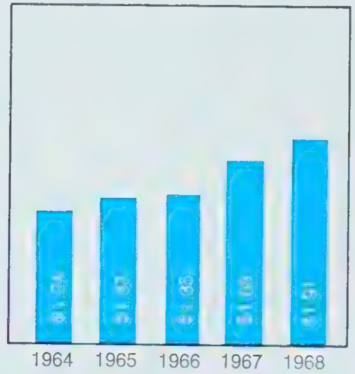
Earnings Per Share



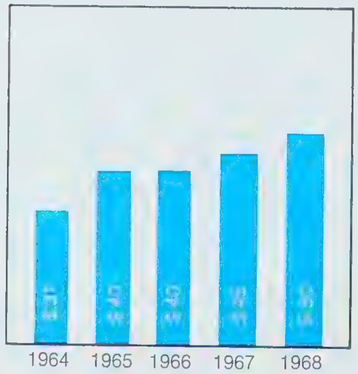
Cash Flow



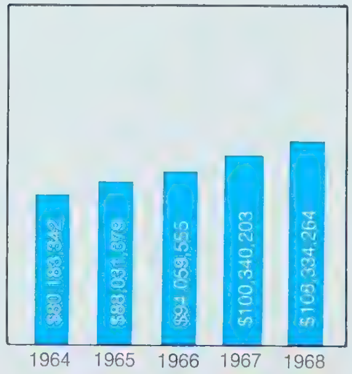
Cash Flow Per Share



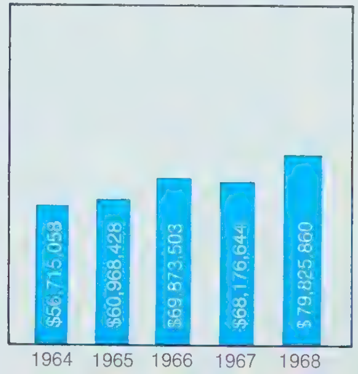
Common Dividends Declared Per Share



Shareholders' Equity



Property, Plant and Equipment (Cost)



[illegible] Corporation
[illegible]
[illegible]

Board of Directors

[illegible]

Officers

[illegible]

Transfer Agents

[illegible]
New York, New York

Registrars

[illegible]
[illegible] Manhattan Bank
New York, New York

Auditors

[illegible]

Stock Listings

[illegible]

Stock Symbol

[illegible]

[illegible]

PRINCIPAL SUBSIDIARIES [illegible]

Infant Products Group

[illegible]

Education Products Group

[illegible]

Recreation Products Group

A. G. Spalding & Bros. Inc.
Spalding [illegible]
A. G. Spalding & Bros. [illegible]
A. G. Spalding & Bros. Limited (United Kingdom)
A. G. Spalding & Bros. (Australasia) Pty. Ltd.
Fischer Manufacturing Co., Inc.

[illegible] Products Group

AP Parts Corporation
AP Marketing Division
Columbus Parts Division
[illegible] Industries, Inc.
Goerlich's, Inc.
Muskegon Piston Ring Company
Muskegon Division
Rotary Seal Division
Sparta Foundry Division
Wausau Motor Parts Division
Oldberg Manufacturing Company
Dyersburg Division
Grand Haven Division
Northern Tube Division
Toledo Division
Youngstown Division
AP International Division
AP Parts of Canada, Ltd.
AP de Mexico, S.A.
AP [illegible], S.A.

Building Products

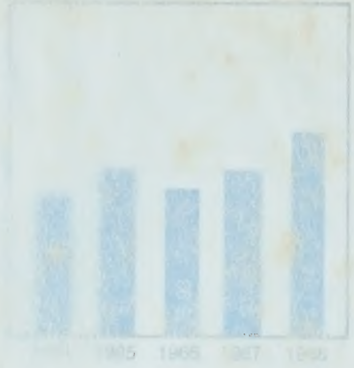
Leslie Welding Company, Inc.
W. J. Haertel & Co.

Five Year Financial Summary

Net Sales

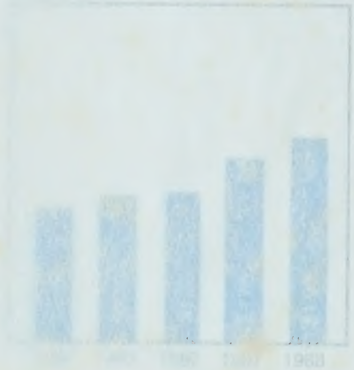
Net Earnings

Earnings Per Share

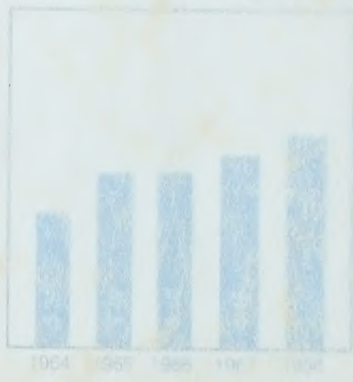


Cash Flow

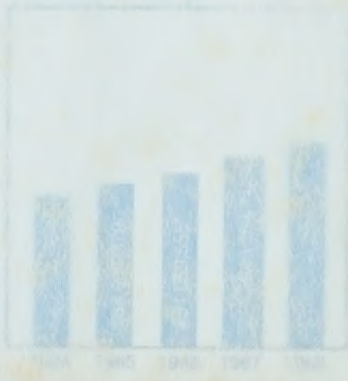
Cash Flow Per Share



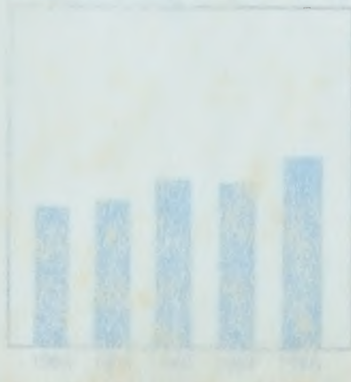
Common Dividends Declared Per Share



Stockholders' Equity



Property, Plant and Equipment (Cost)



Questor Corporation
Executive Offices
Toledo, Ohio 43601

Board of Directors

Lore W. Alford
Reuben W. Askanase
John Goerlich
P. M. Grieve
Cyril R. Porthouse
Paul Putman
Morris Shilensky
Stephen Stranahan
Adolph O. Susholtz*

Officers

Paul Putman, *Chairman of the Board*
P. M. Grieve, *President*
Cyril R. Porthouse, *Vice President*
R. R. Hessler, *Vice President-Finance and Treasurer*
C. V. Beck, Jr., *Secretary and General Counsel*
Paul Garvin, *Assistant Secretary and Assistant Treasurer*

Transfer Agents

The Ohio Citizens Trust Company
Toledo, Ohio

First National City Bank
New York, New York

Registrars

First National Bank of Toledo
Toledo, Ohio

The Chase Manhattan Bank
New York, New York

Auditors

Peat, Marwick, Mitchell & Co.
Toledo, Ohio

Cable Address

Questor

NYSE Symbol

IQ

*Replaces Aaron J. Farfel, Retired

PRINCIPAL SUBSIDIARIES AND DIVISIONS

Infant Products Group

Pyramid International, Inc.
Crator Manufacturing Division
Evenflo Products Division
Evenflo Mexico, S.A.
Harcort Manufacturing Division
Infanseat Company
Oil City Glass Company Division
Rand Rubber Company, Inc.

Education Products Group

Child Guidance Products, Inc.
Child Guidance Toys Division
Platt & Munk Division
Toy Tinkers, Division of A. G. Spalding & Bros. Inc.

Recreation Products Group

A. G. Spalding & Bros. Inc.
Spalding Sales Corporation
A. G. Spalding & Bros. of Canada, Ltd.
A. G. Spalding & Bros. Limited (United Kingdom)
A. G. Spalding & Bros. (Australasia) Pty. Ltd.
Fischer Manufacturing Co., Inc.

Automotive Products Group

AP Parts Corporation
AP Marketing Division
Columbus Parts Division
Merit Industries, Inc.

Goerlich's, Inc.

Muskegon Piston Ring Company
Muskegon Division
Rotary Seal Division
Sparta Foundry Division
Wausau Motor Parts Division

Oldberg Manufacturing Company
Dyersburg Division
Grand Haven Division
Northern Tube Division
Toledo Division
Youngstown Division
AP International Division
AP Parts of Canada, Ltd.
AP de Mexico, S.A.
AP Iberica, S.A.

Building Products

Leslie Welding Company, Inc.
W. J. Haertel & Co.

QUESTOR